

Approved by the  
RoA ERC Resolution No9,  
Dated April 26, 2000

## **ENERGY REGULATORY COMMISSION 1999 ACTIVITY REPORT**

### **Introduction**

The Energy Regulatory Commission (ERC) of the Republic of Armenia (RoA) is a regulatory body in the energy sector acting in compliance with the RoA Energy Law and other normative and legal documents, and is independent within the scope of its jurisdiction.

The Chairman of the ERC, the Deputy Chairman and the three Commissioners were appointed in conformance with the Decree of the President of the Republic of Armenia.

The Commissioners are:

Vardan Movsesyan	Chairman
Nikolay Grigoryan	Deputy Chairman
Ashot Hovsepyan	Commissioner
Emil Ajemyan	Commissioner
Shiraz Kirakosyan	Commissioner

The primary tasks and authorities of the ERC are defined in the RoA Energy Law.

The RoA ERC is carrying out its activities through its staff (45 people), which has the following structural units:

- ♦ Tariff Policy Department
- ♦ Department of Financial and Economic Analysis
- ♦ Legal/Licensing Department
- ♦ Administrative Department

## **1. Financial and Economic Analysis of Activities of Economic Entities of the RoA Energy Sector**

The RoA ERC received an intermediary (nine months) 1999 financial and economic activity reports and information from the economic entities of the RoA Energy Sector, based on which conducted a financial and economic analysis, prepared corresponding conclusions, and sent to all economic entities for discussion and implementation of adequate measures.

The ERC developed and, after discussing with independent experts and respective specialists of the economic entities, implemented new forms of financial reporting and financial and economic information to be submitted to the ERC. The new forms are based on analytical system (system of sub-accounts), and consider the requirements of the International Accounting Standards.

The RoA ERC conducted a number of organizational activities on submission of the financial reports and regulation of analytical works. In particular, the procedures of organization of receipt, discussions and analysis of Financial Reports and Financial and Economic Information provided to the ERC by the economic entities of the RoA Energy Sector, as well as procedures for discussion of the results of analysis of the financial reports were developed and implemented.

Currently, the works on receipt and analysis of the 1999 annual financial reports are being accomplished. Once the above works are finished the ERC is planning to publish the information in mass media with adequate comments and general data.

The following was developed and sent for discussions to independent experts and economic entities of the RoA Energy Sector:

- Procedures for developing accounting reports in compliance with the International Accounting Standards to be submitted to the ERC by economic entities of the RoA Energy Sector. This shall benefit the employment of new methods of tariff calculation and creation of basis for implementation of two-part tariff system.
- Draft indication system for evaluation of the results of financial and economic activities of the economic entities of the RoA Energy Sector.

The purpose of the above measures is to implement a more justified tariff policy and to supervise conditions proposed to the economic entities of the RoA Energy Sector through operation licenses.

## **2. Revision (Establishment) of Tariffs**

During 1999 the RoA ERC displayed a wide range of activities on development, improvement and adjustment of tariff methodology to international standards, its implementation, as well as evaluation and clarification of initial data, which lays in the basis for tariff calculation. Principles of setting the amounts of depreciation deductions were developed considering the process of re-evaluation of main assets of the sector, necessity for investments in the sector, and principles for setting the amount of payback of the capital invested.

Technical analysis of technical and economic reports submitted to the ERC by the economic entities of the energy sector in the forms approved by the respective ERC Resolution was conducted, discussions were organized and conducted. Applications for tariff review with corresponding justifications were received from economic entities of the energy sector and analyzed in terms of technical justification.

With the purpose of leveling the load of power plants and thus improving efficiency of generation usage the ERC adjusted power supply (generation) quotas for power plants and established nighttime tariffs for all groups of customers. The purpose of implementation of the nighttime tariff is to enhance the development of Armenian economy, and first of all the development of small and medium businesses, as well as to help reduce social problems of the population. At the same time, technical solutions for implementation of the nighttime tariff, and specifically the installation of new meters, will significantly enhance the improvement of efficiency of the sector including significant reduction of commercial losses.

The ERC was working on implementation of two-part tariff (payments for capacity declared and amount of electricity consumed). The methodology basis for two-part tariff, which is planned to be implemented in accordance with the technical capability, is being developed. Its implementation will allow competition of electricity suppliers to the wholesale market, encourage large consumers to use electricity and capacity efficiently, as well as help implement energy efficiency technologies with the consumers.

The ERC Activity Plan for the Year 2000 was developed. Electric and thermal power and natural gas balances for the year 2000 and electricity generation structure were forecasted.

Taking into consideration the forecasted amounts of electricity consumption and energy recourses in the year 2000, quotas for electricity supply to the National Grid were established for the year 2000.

Based on the assessment of tendencies and factors of forthcoming possible development of the energy sector, possible dynamics of electricity tariff for the next 10 years was forecasted.

Leaving the electricity tariffs for end consumers constant, new tariffs for electricity supplied from power plants, and sold by Armenergo State-owned CJSC to transmission and distribution companies were set. The above new tariffs are put into effect starting February 1, 2000.

New methodology for tariff calculation for electricity supplied from small HPPs was developed and implemented, new tariffs for electricity supplied from small HPPs were set.

Natural gas residential tariffs and tariffs for other consumers were left constant with the purpose to prevent increase of tariff for electricity generated by thermal power plants. Although taking into consideration structural changes in the sector of natural gas and having studied the applications submitted by Natural Gas Operation Licensees on natural gas sale and service tariffs, the ERC set new tariffs for natural gas transportation and distribution services.

Based on the applications submitted by district heating companies, new tariffs by locations for the 1999-2000 winter season district heating were set.

### **3. Regulation of Relationships of the Economic Entities of the Energy Sector**

With the purpose of regulation of relationships of the economic entities of the energy sector and resolution of disputes occurred between them, as well as being guided by Item "e" of Article 20 of the RoA Energy Law, the Energy Regulatory Commission of the Republic of Armenia developed and approved Procedures for Accepting, Discussing and Resolving Applications on Disputes Occurred Between the Operation Licensees in the Energy Sector of the Republic of Armenia.

Taking into consideration the current structure of the energy sector, and the Single Buyer/Vendor status of Armenergo State-owned CJSC, the ERC developed and approved Model Contracts for electricity sale and purchase (generator - wholesale buyer/vendor, wholesale buyer/vendor - distribution, transmission services), which shall set procedures for energy entities' commercial relations and allow to balance the rights and obligations of the parties.

Natural gas sector Model Contracts (natural gas transportation, distribution, and sale/purchase) were approved considering structural changes in the natural gas sector.